

REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON EDEN DISTRICT MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Eden District Municipality, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 11 to 75.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), the Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009) (DORA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) (a) of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and General Notice *1111 of 2010* issued in Government Gazette 33872 of 15 December 2010. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Eden District Municipality as at 30 June 2011, and its financial performance and cash flows for the year then ended in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act (Act No. 56 of 2003) (MFMA) of South Africa.

Emphasis of matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Restatement of corresponding figures

9. As disclosed in note 37 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of correction of errors in terms of GRAP 3. The municipality utilised Transitional Provisions of Directive 4, issued by the Accounting Standards Board, during the year ended 30 June 2010 in the financial statements of the Eden District Municipality.

Significant uncertainties

10. As disclosed in note 46.1 to the financial statements, Haarlem Community has claimed R35 million against the municipality. The claim relates to the commonage where the Municipality contracted the services of a service provider to harvest the plantation on the commonage. The claimants are of the view that the commonage belongs to the community and they should have been consulted and be allowed to harvest the plantation in question.

Material losses

11. As disclosed in note 43.4 to the financial statements, material losses of electricity with the value of R3 470 456 (48.61%) was incurred.

Additional matters

12. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Material inconsistencies in other information included in the annual report

13. The draft annual report has not yet been submitted to us for review to identify any material inconsistencies that may exist between the annual report and financial statements. The final printer's proof of the annual report will be reviewed and any material inconsistencies then identified will be communicated to management. Should the inconsistencies not be corrected, it may result in the matter being included in the audit report.

Unaudited supplementary schedules

14. The supplementary information set out on pages 76 to 78 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

15. In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages 229 to 251 and material non-compliance with laws and regulations applicable to the municipality.

FINDINGS ON THE REPORT ON PREDETERMINED OBJECTIVES

Included below are the findings raised during our audit of the report on predetermined objectives.

Presentation of information

16. The reported performance against predetermined objectives was deficient in respect of the following criteria:
- Performance against predetermined objectives was not reported using the National Treasury guidelines.
17. The following audit finding relate to the above criteria:
- No measures were documented in the Annual Performance Report to improve performance on Key Performance Indicators (KPIs) that did not achieve planned targets as required by the Municipal Planning and Performance Management Regulations 2001, Regulation 13 (2) (c).

Usefulness of information

18. The reported performance against predetermined objectives was deficient in respect of the following criteria:
- Consistency: The reported objectives, indicators and targets are not consistent with the approved integrated development plan.
19. The following audit finding relate to the above criteria:
- Additional indicators and targets were reported on as opposed to the approved integrated development plan. These additional indicators and targets were not approved subsequent to the strategic planning process.

Reliability of information

20. The reported performance against predetermined objectives was deficient in respect of the following criteria:
- Validity: The reported performance did not occur and does not pertain to the entity
 - Accuracy: The amounts, numbers, and other data relating to reported actual performance have not been recorded and reported appropriately
 - Completeness: All actual results and events that should have been recorded have not been included in the annual performance report

21. The following audit findings relate to the above criteria:

- For the selected programmes, 62% of the reported indicators are not valid, accurate and complete based on the source information or evidence provided.

Findings on Compliance with Laws and Regulations

Included below are findings on material non-compliance with laws and regulations applicable to the municipality.

Annual financial statements

22. The accounting officer did not submit the annual financial statements of the municipality for auditing, within two months after the end of the financial year as required by section 126(1)(a) of the Municipal Finance Management Act.
23. Contrary to the requirements set out in section 122 of the MFMA, the municipality did not prepare financial statements that fairly present the state of affairs of the municipality, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year as the financial statements reviewed for audit were subject to material corrections during the audit process.

Expenditure Management

24. The accounting officer did not take reasonable steps to prevent irregular expenditure, as required by section 62(1)(d) of the Municipal Finance Management Act.

Procurement and contract management

25. Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers as per the requirements of SCM regulation 17(a) & (c).
26. Awards were made to suppliers who did not submit a declaration on their employment by the state or their relationship to a person employed by the state as per the requirements of SCM regulation 13(c).
27. Sufficient appropriate audit evidence could not be obtained that awards were made to providers whose tax matters have been declared by the South African Revenue Services to be in order as required by SCM regulation 43.
28. Awards were made to suppliers without a written contract or agreement that stipulates the terms and conditions of the agreement as required by section 116 of the MFMA.

INTERNAL CONTROL

29. In accordance with the PAA and in terms of General notice *1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

- 30. The accounting officer did not exercise sufficient oversight responsibility over compliance with laws and regulations, and the implementation and monitoring of controls surrounding these requirements, as no framework was in place, resulting in non compliance with applicable laws and regulations.
- 31. There is no framework in place, as a result the review and monitoring of the financial statements to confirm that they are accurate, valid and complete was not performed.
- 32. Even though risk assessments were performed during the year, the accounting officer did not identify and mitigate the risk of unauthorised expenditure and irregular expenditure as part of its budget and expenditure management.

Financial and performance management

- 33. Adequate review and monitoring by management was not performed, as a result laws and regulations were not complied with.
- 34. The financial statements had material errors to be corrected as a result of lack of adequate review and monitoring of the compilation of the financial statements by the accounting officer and other relevant persons in the finance department. The disclosed list of deviations from Supply Chain Management was not reviewed, correct classification of long term and short term receivables was not looked at, as well the Grants and Subsidies Utilised.

Auditor General

Cape Town

21 February 2012



AUDITOR - GENERAL
SOUTH AFRICA

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